

Some important changes were made in the banking law, but they were not of the character desired by the Indianapolis Commission. They tended rather to perpetuate and encourage the existing system of bond-secured circulation by providing for converting all the old types of bonds, except the four per cents, of 1925, into a new issue running for thirty years and paying only two per cent. The effect of this provision was to increase the circulation obtainable upon a given investment in bonds, because a larger amount in two per cents, could be obtained than in bonds selling at a higher premium. Another provision directed to the same end was that the tax on notes secured by two per cent, bonds should be one-half of one per cent, per annum, instead of one per cent. Still another step designed to perpetuate the bond secured circulation by making it more attractive to the banks was to allow notes to be issued to the par value of the bonds deposited instead of to only ninety per cent, of par.

Under the stimulus of these provisions of law a new direction was given to the movement of the national banknote circulation. It had shown a declining tendency prior to 1892, which was checked to only a moderate degree in the next few years by the demand for currency and by the issue of several new classes of bonds. The bank-note circulation stood on March 1, 1900, shortly before the passage of the new law, at \$249,516,227. With the advantages afforded by the two per cent, bonds, the reduction in taxation, and the privilege of issuing to par, circulation increased by about \$90,000,000 before the close of the year 1900. The increase was less rapid for a time, but again attained momentum in 1903, and went on almost without interruption, until the reaction in the spring of 1908 from the panic of 1907. Old bonds were exchanged rapidly for the new two per cents, and there was a steady tendency on the part of national banks to draw bonds from the hands of private investors because of the small return paid upon them.¹

¹ The interest-bearing debt outstanding on October 31, 1907, was \$858,685,510, and of this amount \$676,250,150 was in two per cent, bonds. Of the latter \$549,788,930 was deposited with the Treasury